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In the matter of Drayer-Hanson, Incorporated, file no. 2-6670, Securities Act of 1933 Section 8 (e)

United States. Securities and Exchange Commission

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.

UNITED STATES OF AMERICA
BEFORE THE SECURITIES AND EXCHANGE COMMISSION

Securities Act of 1933
Release No. 3277
Accounting Series
Release No. 64

In the Matter of	:	
	:	
DRAYER-HANSON, INCORPORATED	:	REPORT OF INVESTIGATION
	:	PURSUANT TO SECTION 8 (e) of
File No. 2-6670	:	THE SECURITIES ACT OF 1933
	:	
<u>Securities Act of 1933 Section 8 (e)</u>	:	

INTRODUCTION

This is a report on the results of our investigation, pursuant to the authority conferred upon us by Section 8 (e) of the Securities Act of 1933, to determine whether or not a registration statement filed with the Commission under that Act by Drayer-Hanson, Incorporated, in respect of a proposed public offering of 80,529 shares of its Class A stock, contained untrue statements of material facts or omitted to state material facts necessary to make the facts disclosed in the registration statement not misleading. As we will indicate more fully later, our investigation disclosed that the registration statement, when it became effective on December 11, 1946, did contain such misstatements and omissions. 1/ Briefly, the more important of these misstatements and omissions concerned the financial statements and a new product of the company called "Airtopia", a reverse cycle heating and cooling unit. Although the Airtopia unit was described in the registration statement as improved and standardized, the prospectus did not disclose that, prior to marketing the unit, the company had no field experience as to its operation under varying conditions. In addition, the prospectus did not disclose that mechanical defects 2/ had resulted in dealer dissatisfaction with the product which, prior to the effective date of the registration statement, caused such dealers to cancel their orders and exclusive selling agreements with the company, and also created servicing and manufacturing costs which ultimately produced a serious drain upon the company's working capital. With respect to the financial statements of the predecessor partnership as of April 30, 1946, certified by Barrow, Wade, Guthrie & Co., independent certified public accounts, they were deficient in that the net worth of the predecessor partnership and its earnings, computed on a corporate basis, were substantially overstated. The

1/ Commission's exhibits are referred to as CX___ and references to transcript of testimony are noted at T___.

2/ The above reference to mechanical defects does not imply defects in basic design. No conclusion is expressed herein as to the merits of the basic design.

representation in the certificate of such auditors in respect of such financial statements to the effect that they had no reasons to believe that the inventories as set forth in such statements were unfairly stated was without justification. Finally, unaudited financial statements of the company as of September 30, 1946 and October 31, 1946 contained in the registration statement were misleading in that they failed to make adequate provision for losses due to servicing and other costs incurred in connection with Airtopia units.

The company has agreed to mail a copy of this report to each person who purchased Class A stock offered pursuant to the registration statement. Since the essential purpose of the Securities Act, to insure disclosure of information adequate to inform investors of their rights, would appear in this case to be accomplished by the distribution of the report, we have determined not to employ the more usual remedy, i.e. the institution of proceedings under Section 8 (d) of the Securities Act to suspend the effectiveness of the registration statement. For the convenience of Class A shareholders and other interested persons, a copy of the record of this investigation has been made available for inspection during business hours at the Los Angeles offices of the Commission, Room 1737, U. S. Post Office and Courthouse, 312 North Spring Street, Los Angeles 12, California.

The company is also forwarding to such Class A shareholders for their consideration a proposed plan for its financial rehabilitation. As an aspect of such plan each Class A shareholder who assents to it is required to release the company, its directors and officers, the independent certified public accountants and the underwriters and others from any liability such persons may have to such shareholders at common law or under the Securities Act of 1933 or other statutory law. The plan will become effective only if accepted by the holders of at least 85% of the Class A shares sold by the company to the public. 3/ On the basis of the information contained in this report and the information supplied to him by the company in respect of its proposed plan, each shareholder will have to use his own business judgment in evaluating the merits of the plan to him as against the possibility of effectively enforcing by legal proceedings the possible liability to him at common law, under the Securities Act of 1933 or other statutory law, which may exist upon the part of the company, its directors and officers, the underwriters, the certified public accountants and others. We wish to emphasize that we have not passed upon the merits of this plan. We have no jurisdiction so to do. No one can represent that we have made any determination whatsoever in respect of the plan.

3/ The more important provisions of the plan are these: Each holder of Class A shares is to release the company, the underwriters, the certified public accountants, the directors and officers and others from all liability to him under the Securities Act or otherwise. Subject to the procurement of such releases from the holders of at least 85% of the Class A shares, Barrow, Wade, Guthrie & Co. has agreed to pay \$87,500 to the company; 3 directors have agreed to invest \$50,000 in Class A shares of the company; and Maxwell, Marshall & Co. has agreed to loan \$50,000 to the company, the loan to be evidenced by a note due in 5 years. Unsecured creditors of the company holding claims of approximately \$319,000 out of a total of \$358,808 of such claims have agreed, if the plan becomes effective, to accept payment of 25% of their claims within 90 days after the plan becomes effective and to accept payment of the balance of their claims in installments payable within one year. However, five of the largest creditors (holding more than two-fifths in amount of unsecured claims at January 31, 1948) have also agreed that, as to their own claims, they will further modify their demands to the extent that, after payment to them of the initial 25%, the balance owing to them need only be paid out of profits of the Company.

In order to acquaint shareholders with the liabilities imposed by the Securities Act, we will briefly discuss the applicable provisions of the Act. Thereafter we will describe the background of the financing and the nature of the material misstatements of facts in the registration statement as well as of the omissions of material facts necessary to be stated in order to make the facts stated in the registration statement not misleading.

Speaking generally, Section 11 of the Securities Act creates a right of action upon the part of an investor to recover damages he may have suffered as a result of his investment if he can prove that as of its effective date the registration statement pertaining to the security which he acquired contained material misstatements of facts or omitted material facts necessary to be stated in order to make the facts stated not misleading. It is not necessary for the investor to prove that he acted in reliance upon such misstatements or omissions. The right of action exists against (1) the company; (2) every person who signed the registration statement; (3) any expert upon whose authority statements were made in the registration statement with his consent, but only in respect of such statements; (4) the directors; and (5) the underwriters. The company can defend itself against such right of action only to the extent that it can sustain the burden of proof that the decline in value of the investor's security was not the result of its misstatements or omissions in the registration statement. In addition to this defense which is also available to the other persons named above, they will not be liable if they can sustain the burden of proof that, based upon the standard of conduct of a reasonably prudent man in the administration of his own affairs, they, after reasonable investigation, had reasonable ground to believe and did believe at the time the registration statement became effective that the statements therein were true and that there was no omission of material facts necessary to be stated in order to make the facts stated not misleading.

Section 12 (2) of the Act provides, in part, that any person who sells a security by use of the mails or any facility of interstate commerce by means of a prospectus or oral communication, which includes an untrue statement of a material fact or omits to state a material fact necessary to make the statements in the light of the circumstances under which they are made not misleading, and who shall not sustain the burden of proof that he did not know, and in the exercise of reasonable care could not have known, of such untruth or omission, shall be liable to the person purchasing such security from him who may sue either at law or in equity in any court of competent jurisdiction, to recover the consideration paid for such security with interest thereon, less the amount of any income received thereon upon tender of such security, or for damages, if he no longer owns the security.

Section 13 of the Act provides, in part, that no action shall be maintained to enforce any liability created under Section 11 or Section 12 (2) unless brought within one year after the discovery of the untrue statement or the omission, or after such discovery should have been made by the exercise of reasonable diligence. 4/ In no event shall any such action be brought to enforce a liability created under Section 11 more than three years after the security was offered to the public or under Section 12 (2) more than three years after the sale.

4/ In this connection consideration should be given, among other things, to any information disclosed at an adjourned stockholders' meeting held August 14, 1947, and to a report of the registrant to its stockholders dated October 23, 1947.

BACKGROUND OF THE FINANCING AND INVESTIGATION

The company was incorporated on April 29, 1946, to acquire the assets of a partnership composed of R. E. Ristow, James G. Lombardi, Albert Hanson and Martin J. Burke. 5/ The partnership, the business of which was continued by the company, was engaged in the business of designing, manufacturing and selling heat transmission equipment for use in heating, ventilating, refrigeration and air conditioning. Products now manufactured by the company and which were manufactured by its predecessors 6/ include coils, condensers, air conditioning units, drinking water coolers and related apparatus. In addition, prior to the incorporation of the company, its predecessor had been engaged in developing a new product called "Airtopia" which was designed to be a fully automatic single unit capable both of heating and cooling homes, offices, stores and small industrial plants. The unique feature in the design of Airtopia, upon which a patent application (assigned to the company) has been filed and is pending, was an automatic switch valve. The valve automatically switches the apparatus from a heating cycle to a cooling cycle and vice versa, according to variations in the temperature of the space to be conditioned.

To finance the development of Airtopia and to purchase inventories of supplies and materials for its production and the manufacture of other products, the partnership had contracted substantial bank loans. Early in 1946 negotiations were begun between the partners and Maxwell, Marshall & Co., a Los Angeles investment banking firm, in respect of a possible refinancing in whole or in part of these bank loans and provisions for further working capital. On March 31, 1946, Maxwell, Marshall & Co. loaned the partnership \$100,000 in order to supply the partnership with additional working capital. In July of 1946 Maxwell, Marshall & Co. accepted 15,000 shares of the company's common stock as payment of \$30,000 of this debt. The remaining \$70,000 was paid out of the proceeds of the sales of the Class A shares.

As a step in the accomplishment of the proposed financing the company was to be formed to acquire the partnership assets and to sell its Class A shares to the public. The partners in consideration of the transfer of the partnership assets were to receive common stock of the company. 7/

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- 5/ The company upon its acquisition of the assets of the partnership issued 19,471 shares of its Class A stock in satisfaction of certain indebtedness of the partnership.
- 6/ Prior to the partnership, the enterprise had been carried on by a corporation and a partnership predecessor of such corporation.
- 7/ The Class A shares were entitled to receive cumulative dividends at the rate of 60 cents per annum, were convertible into one and six-tenths common shares, were entitled to one vote per share, were entitled to receive on any liquidation of the company the sum of \$10 per share before any participation in assets upon the part of the common shares and were redeemable at \$12 per share. As already indicated 19,471 Class A shares had been issued in satisfaction of indebtedness of the partnership upon the purchase by the company of the partnership's assets.

The prewar and wartime record of earnings of the company's predecessors, recomputed on a corporate basis, were insufficient in any year prior to 1945 to cover the dividend requirements on the Class A shares which would have been outstanding after giving effect to the financing. ^{8/} In the course of the negotiations between the company and Maxwell, Marshall & Co., an oral understanding was reached to the effect that the bankers would not undertake the financing operation unless the result of an audit by Barrow, Wade, Guthrie & Co. of the financial statements of the partnership for the ten months ending April 30, 1946, computed as though the partnership had been a corporation, indicated net income at least equal to one and one-half times the annual dividend requirement on all of the Class A shares which would be outstanding after giving effect to the sale of approximately 80,000 shares of Class A stock to the public. The underwriting house also stipulated that the audited balance sheet of the partnership as of April 30, 1946, must show a net worth to be transferred to the company of at least \$250,000.

An audit by Barrow, Wade, Guthrie & Co. of the partnership accounts as of April 30, 1946, represented the partnership net worth to be approximately \$260,000. Similarly such audit represented net earnings of the partnership for the ten months ended April 30, 1946, to be approximately \$181,000 for the partnership, and approximately \$91,000 when computed as though the partnership had been a corporation. The latter amount was slightly in excess of one and one-half times the annual dividend requirements on all of the Class A shares which would have been outstanding if all of the Class A shares to be offered publicly were to be sold. The prospectus, following its summary of earnings, specifically stated the annual dividend requirements to be \$60,000.

As will appear later in this report concerning the accounting errors, the net worth of the company actually did not equal \$250,000 and the earnings did not equal one and one-half times the dividend requirements. Sales of the Class A stock ceased on April 16, 1947. These accounting errors were ascertained in June of 1947.

As already indicated, on April 29, 1946, the company was formed. In consideration of the acquisition of the partnership assets, the company issued 125,000 shares of common stock to the partners in consideration of \$250,000 book value of such assets and entered upon its books a liability to the partners of \$10,068 in consideration of the remainder of the partnership net worth.

^{8/} Annual dividend requirements on the 100,000 Class A shares which were to be outstanding amounted to \$60,000. Net income of the predecessor corporation for the period 1936 to 1944, inclusive, and for the six months ended June 30, 1945, were as follows:

<u>Year</u>	<u>Net Profit (Loss)</u>
1936	\$ (4,144.69)
1937	(20,395.42)
1938	(5,777.69)
1939	986.47
1940	9,011.45
1941	16,418.57
1942	17,622.97
1943	7,201.22
1944	26,914.10
Six months ended 6/30/45	- 25,922.09

On November 9, 1946, Frank O. Maxwell, a partner of Maxwell, Marshall & Co. was elected to the board of directors of the company. On December 11, 1946, the registration statement became effective in respect of the 80,529 shares of Class A stock proposed to be offered. Maxwell, Marshall & Co. agreed with the company to purchase 20,000 of such shares and to use its best efforts to sell the remaining 60,529 shares. The proceeds, estimated at approximately \$695,000, were to be applied as follows: \$390,000 toward payment of accounts payable; \$70,000 to payment in full of the indebtedness to Maxwell, Marshall & Co.; and approximately \$235,000 toward payment of bank loan.

As at September 30, 1946, even if all of the shares were to be sold at the offering price of \$10 a share and the proceeds devoted to retirement of debt, there would still have been outstanding \$400,000 due to banks on demand. Moreover, on that date the company's current liabilities exceeded its current assets by approximately \$81,000. This precarious financial position was described in the registration statement. However, as we will hereafter indicate, the registration statement was silent as to facts which would have informed the investor of circumstances which would adversely affect its future working capital position.

Between December 16, 1946 and April 16, 1947 a total of 59,030 shares of Class A stock out of the 80,529 shares offered by the company and Maxwell, Marshall & Co. were sold to the public.

Some time in June of 1947 the company and its auditors Barrow, Wade, Guthrie & Co. informed us that the company's comptroller had discovered an error had been made in the balance sheet as of April 30, 1946, and the partnership income statement for the ten months ending that date, certified by Barrow, Wade, Guthrie & Co. and contained in the registration statement and prospectus. The error consisted of an over-statement of approximately \$97,000 in an inventory item designated "work in process and fabricated parts". This resulted in an over-statement of the partnership net worth at April 30, 1946 and partnership net income for the ten months ended April 30, 1946 in the same amount. The error in the earnings, computed as though the partnership had been a corporation, for the ten months ended April 30, 1946 was an over-statement of approximately \$30,000. The company further stated that a recheck of the item was being made by Barrow, Wade, Guthrie & Co., and that the final results would be reported to the Commission. Subsequently, the company also retained Thomas & Moore, of Los Angeles, California, a firm of independent certified public accountants, to make a recheck. Some weeks later, registrant reported the results of the recheck (which did not vary much from the amount originally indicated) and also reported that the losses of the registrant for the fiscal year ended April 30, 1947, would be in excess of \$400,000 according to the latest available figures. In view of these substantial errors in the certified financial statements included in the prospectus and the subsequent losses of the company, we deemed it advisable to make the investigation which is the subject of this report.

The important matters disclosed by our investigation may be conveniently divided into two subdivisions: (1) misrepresentations and omissions in respect of "Airtopia" and (2) misrepresentations and omissions in the financial statements of the company and its predecessors, and in the certificate of the independent accountants. We turn now to a discussion of our findings under these categories.

Misrepresentations and Omissions in Respect of "Airtopia"

As we have already indicated, the registration statement contained financial statements certified by Barrow, Wade, Guthrie & Co. which represented earnings for the ten months ended April 30, 1946, of approximately \$181,000 for the partnership, and approximately \$91,000 when computed as though the partnership was a corporation. The latter amount was one and one-half times the dividend requirements of the Class A shares which would be outstanding if the financing were completely successful. These reported earnings were almost entirely due to sources other than Airtopia, the sale of which commenced in March of 1946. 9

A substantial portion of the description of the business and prospects of the company in the registration statement was devoted to "Airtopia" and its alleged performance as a combination automatic heating and cooling unit. For example, among other things, the registration statement recited the following:

"The Airtopia unit is a new development of the company and is a fully automatic air conditioning machine for all year use." (prospectus page 5)

* * * * *

"The company and other manufacturers and air conditioning contractors have built in the past a total of approximately 25 to 30 specially designed larger installations which use the reverse-cycle principle the principle of Airtopia and which have proven satisfactory for both heating and cooling over a period of time as long as eight years. The company's first reverse-cycle installation was completed in 1938 as one of three ordered for its local offices by the Southern California Edison Company, Ltd. and it has given good service since that date. Although the company manufactured air conditioning equipment during the war, initial deliveries of the improved and standardized 'Airtopia' units did not commence until March 1946." (prospectus page 6) 10/

* * * * *

"In 1939 the company commenced building automatic year round air conditioning units and component parts thereof for special installations. This work was discontinued during the war and resumed in the fall of 1945 when the design was improved and standardized 10/ into the present 'Airtopia' units. Initial deliveries of 'Airtopia' units were made in March of 1946. As of November 1, 1946, the company had manufactured 254 'Airtopia' units." (prospectus page 9)

* * * * *

9/ While it is true that the registration statement stated that the company had operated at a loss of approximately \$41,000 for the six months ended October 31, 1946, it contained the following on this point:

"The company and its predecessors have experienced difficulty in obtaining regular shipments of the raw materials required by the business. Deliveries of critical items such as electric motors and controls, and compressors in some sizes, have been far behind schedule. This situation has been aggravated by strikes in the plants of suppliers and by strikes in the steel, copper, aluminum and electrical equipment industries. Notwithstanding difficulties in obtaining supplies, the company's net sales for the six months from May 1946 to October 1946, both inclusive, exceeded \$1,480,000 although the company sustained an operating loss of approximately \$41,200 during these months."

10/ Material in brackets and underscoring ours.

"Airtopia' units are guaranteed by the company against defects in materials, parts or workmanship for a period of one year following the date of installation and the company maintains a field engineering service department at the factory, at the present time composed of 6 men who are qualified to make repairs and replacement of defective parts." (prospectus page 6)

From the above statements and others contained in the registration statement when it became effective we believe an investor would have been justified in concluding that the "improved and standardized" Airtopia unit had performed and would have performed satisfactorily when installed on the premises of customers. The record of our investigation, on the contrary, demonstrated clearly that, on the effective date of the registration statement, the management knew or should have known, upon reasonable investigation, that numerous mechanical defects (although not necessarily defects in basic design) had been discovered in the Airtopia units delivered prior to the effective date of the registration statement which had resulted in cancellation by dealers of the great majority of the orders for Airtopia, an expense to the company which probably would increase substantially in the future, and which had or would seriously affect its working capital position.

The first "improved and standardized" Airtopia unit, a test model, was built in October 1945 and installed in the offices of the company. A second unit was built in December 1945 and was used for demonstration purposes. On January 4, 1946, without further field testing of the "standardized" unit, the company commenced the production of 26 units and as work on the units was completed they were shipped to dealers for resale to consumers. William L. Holladay, an engineer formerly employed by the company, testified that it was becoming apparent to him in November of 1946 that the company did not have sufficient field experience with the unit to warrant marketing it on a major scale. 11/ In a report dated October 15, 1946 made to Maxwell, Marshall & Co., the underwriter, by one of its salesmen who interviewed both dealers in and purchasers of Airtopia units, a similar statement was made. 12/

11/ The testimony of the witness reads in part as follows:

"A. Well, it is obvious, I believe, to us now, that the company did not have sufficient field experience to go into a major program of field sales. It is very hard to say whether we realized that at the time this was going on. I recall at least one conference with Mr. Beebe, where my attitude was that they were simply normal bugs as would be expected from any new product and the thing to do was to get them fixed, but not be too disturbed about them

"A. My personal opinion was probably veering by November to feeling it should have been done on a slower production basis which would allow more time for field testing. I can recall having expressed that opinion." (T 649 and 650)

12/ The report, which includes numerous testimonials of satisfied consumers, nevertheless states:

"I believe that Drayer-Hanson has potentially the finest marketable air conditioning system available today. The Company has taken the lead in the field, but unfortunately has not or has not been able to field test the unit sufficiently before putting it on the market."
(CX 80)

As we have already indicated, the first Airtopia unit was delivered in March 1946. At the end of August of the same year it was already apparent that numerous mechanical defects existed in the delivered units. The majority of the difficulties occurred in respect of the automatic switching valve, the compressor, the check and expansion valves, and the solenoids in the liquid lines, all of which were important to the satisfactory operation of the units. Up to the end of November 1946 the registrant had replaced 26 automatic switching valves in the 81 installations for which servicing records were available. In the fall of 1946, the Company was considering a redesign of the automatic switching valve to overcome its operating difficulties. 13/ Up to the end of November 1946 the registrant had replaced 23 check valves in the same 81 installations. In order to overcome this source of trouble, the company's engineers prior to the effective date of the registration statement were already considering a redesign of the unit to eliminate these valves. 14/

As early as August 1946 the registrant organized a department consisting of ten men and a supervisor "to rework or change the units in the field that they will operate in accordance with the representation that had been made for them". Later these changes were referred to as "modernization" in order to avoid any implication that the units were defective. In 1946 the "modernization" was applied only to those units that had developed some trouble. On January 11, 1947, registrant decided to "modernize" or "modify" (the term "modification" was later substituted for "modernization") all units to be shipped thereafter, and in the early part of February 1947 registrant found it necessary and finally decided to modify all units in the field whether or not the units gave trouble. The modification program of 1947 included three changes in addition to those encompassed in the modification program of 1946. 15/ The cost of modifying a unit ranged between \$200 and \$400. 16/

The defective performance of the units also adversely affected the registrant's relations with its dealers. Prior to October 8, 1946 the distribution of Airtopia had been exclusively in the hands of Airtopia Distributors, Inc., which was organized for that specific purpose. The stock of Airtopia Distributors, Inc. originally was held by Ristow, Lombardi, Burke and Hanson, the partners in the partnership predecessor of the company, and Gay Engineering Company. On July 3, 1946 complete control of Airtopia Distributors, Inc. was acquired by these four individuals who at that time and thereafter were directors and officers of the company. Airtopia Distributors, Inc. had entered into contracts with approximately eleven different dealers giving each an exclusive right to market the units in a designated territory. Among other things, the contracts committed the dealers to purchase a specified dollar amount of units during the year 1946. However, in a number of the contracts the commitment to purchase a specified dollar amount of units was nullified by an insert or addendum providing that the dealer need only buy

13/ On December 10, 1946, the company wrote Dr. R. N. Kemler, head of the Engineering Research Division of Southern Research Institute, to which a unit had been sent for tests, that "The switching valve is now being redesigned and we do not believe there will be any further operating difficulties with this part of the unit." (CX 37)

14/ In the letter to Dr. Kemler, (Supra note 11) the registrant wrote that "Future design calls for the elimination of the check valves thus removing one of the sources of incorrect operation".

15/ T 632.

16/ CX 47.

the number of units he specifically ordered. The contracts also required dealers to put up a deposit of 10% of the commitment, except that in the case of Gay Engineering Co., the largest dealer and also a stockholder in Airtopia Distributors, Inc., the required deposit was only $7\frac{1}{2}\%$. Where contracts had the addendum above referred to, the deposit was based on the commitment that would have applied except for the addendum. The deposits were to be returned to dealers by means of credits on account of purchases. All contracts also permitted the dealer to cancel the contracts at the end of any quarterly period, if the dealer took his quota of units to the end of the quarter and paid all sums then due. 17/

On October 8, 1946 the arrangement with Airtopia Distributors, Inc. was terminated and the company took over the distribution and sale of the units. By July and August of 1946, however, the more important of the exclusive dealers were expressing sharp dissatisfaction with the defective performance of the Airtopia units that they had sold to customers. At least half of the number of such dealers demanded the cancellation of their contracts or of their orders and the return of their deposits. By October 8, 1946 Airtopia Distributors, Inc. had agreed to the cancellation of several of these exclusive dealer contracts and to repay on or before December 31, 1946, deposits not applied to accepted orders for the units by the dealers.

On the subject of its relationship with its exclusive distributors, the company in its registration statement as it became effective on December 11, 1946 stated:

"Since taking over the distribution and sale of 'Airtopia' units on October 8, 1946, the company has given notice of cancellation effective on or before December 31, 1946, of the exclusive territory contracts with eight of the former Airtopia Distributors, Inc. dealers in the states of California, Nevada, Arizona and Texas. The company is presently engaged in appointing approximately 40 authorized dealers in these areas on a non-exclusive territory basis. As of November 8, 1946, 20 such authorized dealers had been appointed, 4 of them being former 'Airtopia' dealers. In addition, the company is renewing contracts with the three former exclusive territory dealers in Oklahoma, Alabama and Florida whereby these dealers become distributors with minimum annual purchase quotas, but without making cash deposits. These distributors will appoint authorized dealers in their territories. The deposits on hand from the eight exclusive dealers whose contracts have been cancelled amounted to \$144,133 as of November 1, 1946 and this sum will be credited on purchases or repaid by the company on or before December 31, 1946. Orders on hand from these eight dealers totalled \$1,924,850 at November 1, 1946 but are not included in the company's backlog figures stated above since, upon cancellation of their exclusive territory contracts with Airtopia Distributors, Inc., they were given the right to cancel their orders and the majority of them are expected to do so."

This statement in the light of the record of our investigation was materially misleading in its failure to disclose the facts in respect of the distributors, which we have already described. It omits to state that cancellations were initiated not by the company but by dealers prior to October 8, 1946 and that the reason for the cancellations was the defective

performance of the Airtopia units. It also fails to disclose that in contrast to the expectation that the orders of such dealers would be cancelled, most of such orders had, to the knowledge of the management, in fact been cancelled prior to October 8, 1946.

Finally, Note E to the financial statements of the partnership predecessor as of April 30, 1946 included in the registration statement contained the following statement:

"At April 30, 1946 the partnership had aggregate firm orders for approximately 1,000 units of all models of 'Airtopia'. In the opinion of the partners a major redesign of the product will not be required before completion and delivery of these orders. Accordingly, the policy established by the partnership and continued by the successor corporation is to amortize the amount of all deferred expenses applicable to 'Airtopia' at the rate of \$140.00 per unit, which it is estimated, will absorb the entire costs now accumulated (together with costs expected to be incurred within several months) over the sale of the first 1,000 units."

With respect to the first sentence of this statement, as we have already indicated, substantial cancellations of orders for Airtopia by dealers had occurred to the knowledge of the company and its management prior to the effective date of the registration statement. 18/

With respect to the second sentence of the foregoing quotation, while it is true our record indicates that no substantial basic redesign of the Airtopia unit in an engineering sense was ever required, fairness to the ordinary investor would seem to have required a disclosure of the mechanical defects which were known to exist in many of the installations on the effective date of the registration statement and the possible consequences thereof to the registrant. In fact, on January 11, 1947 a month after the effective date of the registration statement, the company instituted a program to modify all Airtopia units to be shipped thereafter. This modification program embraced recircuiting of coils, elimination of the need for solenoid valves in the liquid lines; replacement of switching valve piston assemblies with those of new design; and replacement of compressors on certain models with units of higher capacities. All of these changes represented the results of complaints known to the registrant prior to the effective date of the registration statement.

Notwithstanding that the company had decided on January 11, 1947 to engage in this modification program, and that the comptroller of the company had reported to the board of directors at a meeting held on January 20, 1947 (at which Frank O. Maxwell, a director of the company and also a partner of the underwriter, was present) that, although indications were that 1947 as a whole would probably be a very profitable year, January operations would result in a loss due to lower sales volume and higher charges in connection with the servicing and modification of Airtopia units, no amendment to the registration statement or supplement to the prospectus used in selling the 18/ At April 30, 1946, the unshipped balance of orders from dealers aggregated \$1,896,000. The number of units on order as of that date was determined by dividing this dollar balance by \$1,910, the approximate average price per unit. However, the contracts with three of the dealers, the unshipped "orders" of whom aggregated \$7000,000, contained a provision to take and pay only for such units the delivery of which was requested. No liability to accept units not requested by the dealers was imposed. In view of this fact, the characterization of these orders in Note E to the financial statements as "firm" may be questioned.

Class A shares was filed with this Commission even though the underwriter was then still engaged in distributing Class A shares. 19/

As a result of the failure to disclose in the registration statement and prospectus the foregoing facts and circumstances which were known or upon reasonable investigation should have been known to those concerned with the sale of the Class A shares, it was impossible for investors to judge the possible adverse effects upon the company which resulted from its production and sales of the Airtopia unit. For the fiscal year ended April 30, 1947 the company incurred a net loss of \$479,617. 20/ Of this amount more than \$250,000 was attributable to its experience with the Airtopia units. The sum of \$83,000 was expended between August 1946 and April 1947 for servicing defective units in fulfillment of the company's guaranty of performance, and in modifying all units. Of this amount approximately \$26,000 was expended between August 1946 and December 1946. As of April 30, 1947, the sum of \$86,000 was set aside as a reserve for subsequent servicing and modification of Airtopia units (of which \$66,795 was expended in the succeeding six months). In addition, the sum of \$81,169, of which \$75,297 represented costs and expenses incurred in development of Airtopia, was charged to income for the period ending April 30, 1947, and a further sum of \$51,476 was set aside as a reserve for losses on the disposition of inventory items considered to be in excess of requirements or obsolete, 20/ most of which items consisted of parts for Airtopia. Moreover, the Airtopia modification program created an unusual demand on the working capital of the company, which resulted in deferring the payment of trade debts. Consequently, on April 30, 1947, the company was in need of additional working capital.

19/ After January 20, 1947 approximately 6,000 Class A shares were sold to the public.

20/ According to a report of Thomas & Moore, independent certified public accountants, based upon a limited audit of the books completed subsequent to the closing of the hearings in this matter (which is attached to Registrant's Exhibit F), the losses for the fiscal year ended April 30, 1947, amounted to \$542,082 and the provision for losses on the disposition of inventory items considered to be in excess of requirements or obsolete amounted to \$66,476. This latter amount includes, in part, certain adjustments made by the management. However, we wish to point out that the accountants qualified their report in the following manner:

"(A) Inasmuch as our engagement was subsequent to May 1, 1946, and April 30, 1947, we were not present at the taking of physical inventories. We were present and observed the taking of the physical inventory at July 31, 1947, which was taken by your employees on August 1st and 2nd, 1947, during the close-down period. We have accepted the valuation of inventories as shown by your records for May 1, 1946, and April 30, 1947, except as to Work in Process at May 1, 1946. As a special engagement we reviewed in detail the data supporting the inventory of Work in Process at May 1, 1946, and found such inventories to be overstated by \$105,378.57. However, \$6,212.29 of this amount was determined by the management to be properly reclassified as 'Deferred Products Development'. These adjustments have been reflected as of May 1, 1946.

(Continued)

Misrepresentations and Omissions in the Financial Statements of the Company and its predecessors and in the Certificate of the Independent Accountants

We have commented earlier in this report on the one-year guarantee in the sale of Airtopia units. In our opinion the income statement for the five months ended September 30, 1946, and the summary of earnings for the six months ended October 31, 1946, which included sales of Airtopia units, were materially misleading by reason of the failure to include a provision for unrecoverable costs which might arise under the company's guarantee of its product. As indicated heretofore, the management became aware (prior to September 30, 1946) of the defects in its product and of the necessity for making expenditures to correct these defects.

We have also referred to the statement in Note E to the financial statements which contains a representation of the policy established by the partnership and continued by the successor corporation in the amortization of deferred expenses applicable to "Airtopia". This policy contemplated the amortization of such deferred expenses over the sale of the first 1,000 units of "Airtopia" in respect of which it was represented that "at April 30, 1946 the partnership had aggregate firm orders for approximately 1,000 units. . .". Assuming that the partnership and the successor corporation had firm orders for 1,000 units as of April 30, 1946 or that it expected as of that date to sell 1,000 units within a reasonable time, nevertheless it was apparent to the management in August and September, 1946, that its orders had been materially reduced by cancellations and as a result thereof the amortization rate should have been increased. Such increase in amortization would have substantially increased the net loss shown in the income statement for the five months ending September 30, 1946 and in the summary of earnings for the six months ending October 31, 1946.

The balance sheet of Drayer-Hanson (a co-partnership) as of April 30, 1946, and the pro-forma balance sheet of Drayer-Hanson, Incorporated, (successor to the co-partnership) as of May 1, 1946, which were certified to by Barrow, Wade, Guthrie & Co., (hereinafter referred to as the auditors) and made a part of amendment No. 8 to the registration statement filed by the registrant included under the caption "Inventories" an item "Work-in-process and fabricated parts - \$244,331.60." With respect to this item the auditors' certificate dated August 5, 1946, contains the following paragraph:

20 Cont'd/

"(B) We are unable to express an opinion as to (1) The period to which the extraordinary reserves and write-offs made as of April 30, 1947, are applicable; (2) Whether errors in inventory of April 30, 1947, if any, may have resulted in an overstatement or understatement of operating results as between the two periods; (3) The adequacy of the reserve for losses on disposition of inventory considered to be in excess of requirements or obsolete.

"These exceptions are taken for the following reasons: (a) That our engagement was undertaken considerably subsequent to July 31, 1947; (b) There is a lack of perpetual inventory records; and (c) The other general accounting procedures, while appearing adequate, were poorly administered."

"We were present only during the taking of a physical inventory, which did not include work in process, as at March 31, 1946, and satisfied ourselves as to the procedures followed in the determination of inventory quantities as of that date. We were not in attendance at the physical count of the inventories taken at the close of each of the years 1942, 1943 and 1944 and we were informed that such procedures were not performed by any other independent public accountant. In the absence of a physical inventory of work in process at March 31, 1946 we subsequently made test inspections of selected items to assure ourselves as to the existence of the inventory and the adequacy of the related accounting data. The inventories at the close of each of the years 1942 and 1944 were reviewed by us as to the basis of pricing and clerical accuracy and we inquired into the methods used by the corporation employees in determining physical quantities to ascertain that methods were employed which would assure reasonable accuracy. We were informed that an inventory was taken as at December 31, 1943 but we were advised that such inventory was lost and therefore not available for our inspection. We were informed that no physical inventory was taken as of June 30, 1945. On the basis of the examinations and tests made by us, we have no reason to believe that the inventories as set forth in the accompanying statements are unfairly stated."

In May 1947 representatives of the registrant reported to the auditors that they believed that the part of the inventory represented by work-in-process as of April 30, 1946 was overstated approximately \$97,000. Thereupon the auditors made a further examination of work-in-process inventory, and as a result concluded that there was an overstatement of \$85,313.97, 21/ or approximately one-third of the net worth of the co-partnership, and an overstatement of like amount in the Net Income (\$181,500) shown by the Profit and Loss Statement of the co-partnership for the ten months ended April 30, 1946, included in the registration statement.

The error in the work-in-process inventory resulted principally from the failure of the registrant to give effect to all partial shipments on the job cost sheets from which the work-in-process inventory was compiled and on the general ledger.

A brief description of the method of accounting for work-in-process and in particular partial shipments will aid in understanding how the above described error occurred. The registrant, a manufacturing concern, operated what purported to be a job lot cost accounting system.

Under this system of accounting costs of raw materials, labor and overhead relating to jobs in process were accumulated on job cost sheets maintained in the cost accounting department. Until such time as a job was complete the applicable job cost sheet did not contain any data with respect to quantities. Factory operations were controlled by production orders issued by the production and control departments. Such production control consisted in keeping a statistical record of the production orders issued, the number of units required to be manufactured and the number of units completed on each production order and their disposition.

21/ According to the report of Thomas & Moore referred to in footnote 17A, the overstatement amounts to \$89,097.79.

It was the practice of the registrant to make partial as well as complete deliveries of job orders both to customers and to stock, and it appears that the records pertaining to these transactions were maintained properly in the production and control department. However, the job cost sheets maintained in the cost department in some instances were not relieved of the accumulated costs applicable to partial deliveries, either to customers or to stock, until the entire job was completed.

On March 31, 1946, a physical inventory of raw materials, fabricated parts and finished goods was taken by the registrant and observed by the auditors. However, no physical inventory of work in process was taken; instead, a list showing the accumulated cost of each job in process was prepared by the registrant. The total of this list, \$219,501.96, was found to be \$54,189.09 less than the work-in-process inventory of \$273,691.05 shown by the general ledger. The registrant then made an adjusting entry, bringing the work-in-process account on the general ledger into agreement with the adjusted accumulated cost of the production orders in process as shown by the list. (Further discussion of this \$54,189.09 adjusting entry made as of March 31, 1946 and other inventory adjusting entries appear at page 30.) This list was then presented to the auditors as an inventory of work-in-process at March 31, 1946.

The balance sheet as at April 30, 1946, contained in the registration statement showed total assets of \$1,517,426 which included inventories aggregating \$737,760. Of this amount \$244,331 represented work-in-process and a minor amount of fabricated parts. Net assets amounted to \$260,068.

Complete physical inventories were taken by the registrant as at the close of 1942, 1943 and 1944 but not in the presence of the auditors or any other independent accountants. No complete inventory was taken at the close of 1945. As stated previously, a physical count of all inventories except work-in-process was taken as at March 31, 1946, which was observed by the auditors. Thus no physical inventory of work-in-process had been taken by the registrant since December 31, 1944. 22/ Furthermore, although according to the certificate of the auditors previously referred to "the inventories at the close of each of the years 1942 and 1944 were reviewed by . . . /them/ as to the basis of pricing and clerical accuracy and . . . /they/ inquired into the methods used by the corporation employees in determining physical quantities to ascertain that methods were employed which would assure reasonable accuracy," their certificate also indicated that they "were informed that an inventory was taken as at December 31, 1943 but . . . /they/ were advised that such inventory was lost and therefore not available for . . . /their/ inspection."

Notwithstanding these circumstances, and the fact that no examination of the accounts of the registrant or the predecessor co-partnership had been made by any independent accountant prior to that made by the auditors as at April 30, 1946, the registrant's determination not to take a physical inventory of work-in-process as at March 31, 1946 was not objected to by the auditors.

22/ Notwithstanding that on July 1, 1946 the form of the enterprise was changed from a corporation to a partnership and then to another corporation on May 1, 1946; and a new venture (the production of "Airtopia") was launched, of a magnitude greater than the organization had handled previously.

The determination not to insist upon a physical inventory of work-in-process as at March 31, 1946, was made by Henry H. Dalton, manager of the Los Angeles, California, office of the auditors, on March 27, 1946, after a discussion with M. J. Burke, an officer of the registrant who represented that the registrant maintained a job cost system, pursuant to which Dalton inspected "the bookkeeping machine which maintained the cost. And ... he made a cursory examination of these records" which took "about 30 minutes." He made no inquiries concerning the registrant's system of internal control, and no tests which would indicate whether the alleged job cost system was adequate or whether it was actually in operation.

Everett L. Mangam, a senior accountant on the auditor's staff, assumed direct charge of the audit of registrant's accounts on April 1, 1946. He had no part in making the arrangements for the audit or in the decision that work-in-process would not be inventoried physically and he was not present when the inventories of raw materials and finished goods were taken. 23/ One of his first procedures was to make a review of "the system and the controls" over a fairly long period as a result of which he found, among others, the following "deficiencies": (1) there was no tie-in between units in the plant and the dollar amounts of inventories; (2) the raw material account was not supported by a detailed stores record in dollars; (3) the segregation of material in the plant was not entirely adequate; (4) requisitions were not being prepared for all material withdrawn from stores and frequent retroactive requisitions "necessary . . . to bring the costs up to the proper material consumption" were noted; (5) no record was kept in the accounting department or the cost department of the units manufactured to date; (6) while a job was still open, the applicable job cost sheet in the cost department would not show how many units had been produced, or shipped, applicable to that job to any particular date; (7) no record was kept on the job cost sheets of units and dollars transferred to finished goods either for partially or entirely completed jobs; and (8) many instances were noted where no record was made on the job cost sheets of partial shipments, either to customers or stock. He concluded that there was "necessity for the revision of the cost system in general" but he, nevertheless, believed that he would be able to use alternative procedures to assure himself with respect to work-in-process "that the inventory was there." He did, however, express concern "because of the additional responsibility and the amount of difficulty in making an examination of an inventory where a physical inventory is not

23/ His testimony reads in part as follows:

"Q. * * * Were you present when Mr. Dalton made arrangements for the audit?

"A. No, I was not.

"Q. Did you discuss the arrangements with Mr. Dalton before you began the audit?

"A. Yes, before I began the audit.

"Q. What was the nature of those discussions?

"A. Well, our discussions were somewhat informal. I had just come out from the East and although I arrived in California before the 1st of April, before the inventory was taken, I did not start with Barrow, Wade until April 1st, that would be a Monday. I was told what had been done and what was to be done; what type of examination it would probably be. Outside of an explanation which Mr. Dalton gave me as to the field we were to cover, the period of time we were to cover, what we probably would encounter, there was very little more said. It was understood I would pick it up on the job."

available for a check" and indicated his feeling that, under the circumstances, "to get an exact picture of the work-in-process" he "would have to review very carefully almost all of the open jobs" of which, he stated, there were approximately 300 as at March 31, 1946.

The audit procedures employed by the auditors to satisfy themselves as to the correctness of the list, purported to be the work-in-process inventory as at March 31, 1946, presented to them by the registrant were as follows:

1. Approximately 75 (out of approximately 300) of the production orders in process at March 31, 1946 were examined to determine the amounts of raw material which should have been charged to each job and the applicable job cost sheets in the cost department were examined to make sure that the materials were in fact so charged.

2. They "made an attempt to remove all of the non-productive jobs or the jobs which were not in process for the purpose of producing a product which could be sold or a part which could be used later in the product which would be sold."

3. They "inquired regarding the method of accumulation and the method of removing the partial shipments shown therein," and

4. They made a physical test of work-in-process on May 8, 1946 "in an effort to ascertain whether the balances at April 30 were reasonable."

Concerning the scope of this physical test, Mangam testified in part as follows:

"... Since the balance sheet was to be dated April 30, 1946, and since the work-in-process listing at March 31, 1946 was merely a book listing, We decided to use the listing of work-in-process jobs at April 30, 1946. We therefore were obliged to check the entries and transactions for the month of April as they affected work-in-process. We were also obliged to prepare our own list of costs applicable to open jobs in work-in-process because the company did not run a list of its own at that date. We used that list prepared by us as of April 30th as a basis for all of our subsequent checks on work-in-process balances.

* * * * *

"We also, on May 8th, spent approximately one day in the plant testing items in various departments by observation or actual count. We were accompanied at that time by the production control manager. We tested the result of our inspection tour against the records of the production control department.

* * * * *

"The work sheet shows that we checked 17 job orders. . . . I believe there were approximately 300, I haven't counted them. . . . It appears that the total accumulated cost on the job orders checked by us was approximately \$70,000.

* * * * *

"Two of us selected items in the plant which were in process. We reconciled the balances which we found in production with the records kept in the production control department. We referred to the job order to see that there was a job order, we made subsequent reviews of the cost to see that the cost was normal for the particular unit being produced, that the requisitions were properly applicable thereto and that the labor charges were also proper.

* * * * *

"We went through the plant, starting at the primary departments, and selected various jobs in process in that department at that time. We would select large items, count them, get a description of them, obtain the job number to which they applied, and make a note of it on our sheets, and move on to another department to select items in that department by the same method.

* * * * *

"We believed that at March 31st the partial shipments had been recorded against the accounts, against the open job orders. We believed that the adjusting entry in April / see below / was wholly a means of correcting a situation in which the company found itself at that date, where they had to have a proper classification of inventory.

* * * * *

"The tests indicated that partial shipments had been made. On the basis of our tests, we estimated approximately how much of a credit we needed for partial shipments."

These procedures disclosed no differences warranting adjustment, and no change was made, in the amount of work-in-process as shown by the list originally prepared by the registrant.

As stated previously, the registrant found it necessary to make periodic entries, substantial in amount, adjusting the work-in-process account on the general ledger. Such an entry credited approximately \$31,000 to work-in-process and charged a like amount to finished goods as at April 30, 1946. The auditors saw this entry and considered its purpose to be "to bring the finished goods inventory account into agreement with a physical inventory taken on April 30, 1946, of finished goods, and to transfer the excess credit in that account to work-in-process. The credit was to represent the amount of partial shipments or the estimated cost of the partial shipments made from jobs still open in work-in-process account . . . It indicated to us that the system of crediting work-in-process for the month of April was not satisfactory; it represented a stop gap entry."

Notwithstanding the purported nature and amount of this entry, the auditors did not analyze the entry or even check into the supporting work papers. Furthermore, there were similar adjusting entries, involving substantial amounts, recorded in August and October 1945, and in January, February and March 1946. They likewise did not attempt to analyze or to verify the correctness of these entries.

A further indication that the purported cost system was not functioning properly was the occurrence of red (credit) balances in the Finished Goods - Inventory account in the general ledger in October 1945 and January and April 1946. There is no evidence to show that the auditors gave heed to this unusual situation.

In our opinion the taking of a physical inventory of work-in-process at the time other inventories are counted is, except in rare instances, a necessity. We can find no extenuating circumstances which might justify the failure of the registrant in this instance to take such an inventory as at March 31, 1946. Indeed, in light of the conditions which, as shown by the record, existed as at that date there was a demonstrated need for a complete and painstaking inventory.

It seems clear, also, that the representatives of the auditors should have made a more thorough examination of the registrant's system of internal control and its cost system, and should have determined that they were being operated effectively before acquiescing in the omission of a physical inventory of work-in-process as at March 31, 1946. And once they found, as they did in the course of their examination, that there was, in fact, no effective system of internal control and the alleged job cost system existed more in theory than in fact, they should have insisted that a work-in-process inventory be taken as at April 30, 1946. Notwithstanding these conditions the company represented that there was in operation a controlled job cost system 24/ and the auditors represented in their certificate that they satisfied themselves as to the adequacy of such system 25/ and the dependability of the company's system of internal control. 26/ We find these misrepresentations to be misleading. 27/ It seems to us, however, that the auditors' dereliction in these respects is overshadowed by the inadequate manner in which they employed alternative auditing procedures in the absence of a physical inventory.

As stated previously, they had grave doubts as to the dependability of the registrant's cost system, particularly with respect to the accounting for partial shipments, yet they failed to check, even by test, any of the individual job cost sheets from which the list purported to represent work-in-process as at March 31, 1946, was prepared, to determine that accumulated costs applicable to partial shipments had been eliminated. Nor did they make such a check as at April 30, 1946. In fact the accumulated cost of approximately \$20,000 shown for one of the jobs included in the physical test check of 17 jobs as at April 30, 1946, referred to on page 29, was found (in the subsequent reexamination made in May 1947) to have been overstated approximately \$13,000 due to the failure to eliminate costs applicable to partial shipments.

24/ Note "B" to the Notes to Financial Statements stated "An inventory of work in process and fabricated parts has not been taken, the amounts on the balance-sheet as at April 30, 1946 and September 30, 1946 being the accumulated cost of all work in process at the respective dates determined from the individual job cost records as controlled by the general accounts."

25/ See supra p. 14.

26/ The certificate, dated August 5, 1946, stated ". . . we have reviewed the systems of internal control and the accounting procedures . . . and . . . have examined or tested accounting records. . . and other supporting evidence by methods and to the extent we deemed appropriate."

27/ Statement No. 1 issued in October 1939 by the Committee on Auditing Procedure of the American Institute of Accountants states, on page 9, "Obviously, also, it would be erroneous to mention internal control if none existed."

There can be no doubt that the auditors knew of the registrant's practice of making partial shipments for, as stated on page 28, they "inquired regarding . . . the method of removing partial shipments shown . . . /from the job sheets/." Furthermore the periodic journal entries referred to on page 31 which effected adjustments with respect to partial shipments were seen by the auditors although they failed to grasp their significance for they did not even examine into the supporting work papers.

It would not have been an involved procedure to test check the job cost sheets to determine that partial shipments had been accounted for properly. It meant merely the scrutiny of the production orders maintained in the production and control department, or a representative number of them to determine whether partial shipments were indicated thereon, and the examination of the applicable job cost sheets in the cost department to see that they were relieved of the accumulated cost with respect to the partial shipments. No such procedure was followed, however.

Under these circumstances we think it clear that the statement in the certificate of Barrow, Wade, Guthrie & Co. pertaining to the financial statements as at April 30, 1946, which was included in the registration statement, that ". . . /the auditors/ have no reason to believe that the inventories as set forth in accompanying statements are unfairly stated" is entirely without justification.

It is our conclusion that here again as we stated with reference to the auditing procedures followed in another case ". . . /the accountants'/ failure to discover the gross overstatement of assets and of earnings is attributable to the manner in which the audit work was done. In carrying out the work they failed to employ the degree of vigilance, inquisitiveness, and analysis of the evidence available that is necessary in a professional undertaking and is recommended in all well-known and authoritative works on auditing." 28/

CONCLUSION

It is our conclusion, based on our examination of the record, that the registration statement of Drayer-Hanson, Inc., which became effective on December 11, 1946, was deficient (in the respects we have indicated) in its description of its product "Airtopia" and that the financial statements as of April 30, 1946 and for the periods ended that date including the certificate of Barrow, Wade, Guthrie & Co. pertaining thereto, and the unaudited financial statements of the company as of September 30 and October 31, 1946 and for the periods ended at such dates were inaccurate and misleading.

By the Commission (Commissioners McConnaughey, McEntire, Hanrahan and McDonald.

(SEAL)

Orval L. DuBois,
Secretary.

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March 15, 1948

28/ In the Matter of McKesson & Robbins, Inc.: Report on Investigation
(p. 443).